

CITY OF SUMNER
Pierce County, Washington
January 1, 1993 Through December 31, 1993

Schedule Of Findings

1. Annual Report Should Be Accurately Prepared

During our audit of the city's financial statements, we noted many account balances that were not correctly stated.

Our audit of the city's Enterprise Fund financial statements disclosed the following material errors and omissions:

- a. \$310,997 overstatement of Matured Interest Payable and Interest Expense in the Water/Sewer Fund.
- b. \$6,292 understatement of Other Current Liabilities in the Parks and Recreation Fund.
- c. \$124,179 understatement of Payable from Restricted Assets - Revenue Bonds in the Water/Sewer Fund.
- d. \$48,097 overstatement of Payable from Restricted Assets - Deposits in the Water/Sewer Fund.
- e. \$2,187 of Due to and Due from Other Funds improperly reported in the Water/Sewer, Storm Sewer, and Cemetery Funds since 1991, 1992, and 1993 financial statements. The actual balance is zero.
- f. \$20,504 understatement of Current Payables in the Water/Sewer Fund.
- g. \$19,626 overstatement of Other Long-Term Liabilities in the Water/Sewer Fund.

In addition, several accounts lacked adequate supporting documentation.

RCW 43.09.230 states in part:

The state auditor shall require from every taxing district and other political subdivisions financial reports covering the full period of each fiscal year, in accordance with the forms and methods prescribed by the state auditor, which shall be uniform for all accounts of the same class.

The reports shall contain accurate statements, in summarized form, of all collections made, or receipts, received by the officers from all sources . . . and all expenditures for every purpose, and by what authority authorized . . .

RCW 43.09.200 states in part:

The system shall exhibit true accounts and detailed statements of funds collected, received and expended for account of the public for any purpose whatever, and by all public officers, employees or other person.

The accounts shall show the receipt, use, and disposition of all public . . . income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

The 1993 financial statements for the Enterprise Funds were determined to be materially misstated due to the errors and omissions noted above. This resulted in the issuance of a qualified opinion on the fair presentation of the Enterprise Funds. Without accurate financial statements, the public and city council are not adequately informed of the results of operations of the city. Also, compliance with bond covenants cannot be determined and significant additional audit time and expense may be incurred.

These errors appear to be caused by a lack of reconciliations of the accounting records throughout the year; and an inadequate review of the financial reports prior to issuance.

We recommend city officials:

- a. Maintain current, accurate and complete accounting records.
- b. Perform a thorough reconciliation of the accounting records and review of the annual financial reports prior to issuance.

2. The City Of Sumner Should Improve Its Fixed Asset Accounting

During our audit of the city's internal controls over fixed assets, we noted weaknesses in the accounting for fixed assets.

During our review of the city's fixed asset accounting system the following weaknesses were noted:

- a. The city has not consistently recorded fixed asset deletions. Assets surplussed in 1993 were not removed from the fixed asset accounts or removed from the detailed listing of fixed assets.
- b. The city does not perform a comprehensive annual physical inventory of its fixed assets.
- c. The city does not maintain fixed asset detail ledgers and was unable to locate and identify certain assets when requested to do so during our audit. The city is unable to identify and trace assets into the fixed asset system and thereby maintain accountability over fixed assets. According to city management, no tagged fixed assets have been entered into the fixed asset tracking system since 1989.

RCW 43.09.200 requires the State Auditor to prescribe uniform accounting systems. The State Auditor prescribes the *Budgeting, Accounting and Reporting System* (BARS) manual which states in Volume 1, Part 3, Chapter 7:

Accountability for fixed assets is required of all local governments, regardless of size.

Proper safeguarding of assets and accurate financial reporting cannot be ensured without complete fixed asset records and periodic physical counts to verify the accuracy of those records.

These conditions with fixed asset accounting have been reported to management starting with the 1987 audit, however, the city has not yet provided sufficient resources to properly record and monitor their fixed assets.

We again recommend that the city:

- a. Implement a system of tagging fixed assets and recording property detail as they immediately enter the fixed asset system to control and accurately reflect known inventory.
- b. Maintain the subsidiary ledgers for fixed assets. Ensure the surplussed and retired assets and additions to fixed assets are properly accounted for.
- c. Perform periodic physical inventories of fixed assets and reconcile to subsidiary ledgers.

3. The City Should Avoid Deficit Cash Balances

As a part of our review of the city's cash and investment accounts, we noted that several funds showed a deficit cash balance at the end of 1993:

LID Development Fund	\$ 1,789
LID No. 64	46,952
Multi-Purpose Center	8,386

RCW 43.09.210 states in part:

. . . no department, public improvement, undertaking, institution, or public service industry shall benefit in any financial manner whatever by an appropriation or fund made for the support of another.

Allowing funds to operate with deficit cash balances effectively constitutes a loan from the solvent funds of the city without the proper authorization of the city council. Additionally, it is improper to report these balances as a negative cash item on the financial statements. They are more properly shown as an interfund payable to the lending fund.

The city did not review the cash position of each fund before year end in order to amend the budget to eliminate deficit cash balances existing at year end.

We recommend the city maintain control over each fund's cash position to ensure deficit cash balances do not reoccur.